

STATE OF ARIZONA

Department of Revenue



Janet Napolitano
Governor

J. Elliott Hibbs
Director

February 10, 2004

The Arizona Department of Revenue has proposed amendments to the administrative rule addressing the exemption from transaction privilege and use taxes of sales of computer hardware and software. In an ongoing effort to interact with and inform the public regarding issues relating to taxation, the Department would appreciate your comments on these proposed rules.

A draft of the proposed rule is attached for your review and comment. If we do not hear from you by **March 16, 2004**, we will assume you have no undue concerns and will proceed with the formal rulemaking process. Comments that are received will be reviewed and revisions will be made accordingly.

Please address your comments to:

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Thank you for your continuing efforts in establishing an ongoing line of communication with the Department of Revenue.

Sincerely,

/s Hsin Pai
Tax Analyst

Attachment

TITLE 15. REVENUE

CHAPTER 5. DEPARTMENT OF REVENUE

TRANSACTION PRIVILEGE AND USE TAX SECTION

ARTICLE 1. RETAIL CLASSIFICATION

R15-5-154. ~~Data Processing Equipment~~ Computer Hardware and Software

- A.** Income from services rendered in whole or in part in connection with the sale of ~~data processing equipment~~ computer hardware is exempt, including income from charges imposed for professional and technological services such as analysis, design, support engineering services, classroom instruction, and data conversion services.
- ~~**B.** Income from the multiple use of data processing equipment where no single customer has exclusive use of the equipment for a fixed period of time, or where the customer does not exclusively control all manual operations necessary to operate the equipment is nontaxable service income.~~
- ~~**C.**~~ **B.** Except as provided in subsection ~~(D)~~ (C), the gross receipts derived from the sale of electronic data processing computer software programs are taxable.
- ~~**D.**~~ **C.** The ~~gross~~ Gross receipts derived from charges imposed for the original creation of an electronic data processing a computer software program or the modification of a ~~canned~~ electronic data processing prewritten computer software program for the specific use of an individual customer are originate from nontaxable service activities and are therefore not taxable.
- ~~**E.** When income is received from both the sale of tangible personal property and exempt services, the charges for each shall be separately stated on billings and invoices or~~

~~otherwise clearly reflected in the books and records of the taxpayer. If not so separately stated, the gross income from such transactions is taxable.~~